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**Article:**

Horvath, Michal orcid.org/0000-0002-4902-6637 (2018) EU Independent Fiscal Institutions: An Assessment of Potential Effectiveness. JCMS-JOURNAL OF COMMON MARKET STUDIES. pp. 504-519. ISSN: 0021-9886

<https://doi.org/10.1111/jcms.12631>

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# **EU Independent Fiscal Institutions: An Assessment of Potential Effectiveness**

## **ABSTRACT**

The paper explores if EU independent fiscal institutions (IFIs) are in a position to exercise effective scrutiny of national fiscal policies. It identifies substantial heterogeneity across IFIs in resources which is not matched by a similar diversity in mandates. In addition to financial and human resources, better access to information, effective comply-or-explain mechanisms and closer links with legislatures could enhance fiscal surveillance and accountability in the EU. The paper provides rankings of individual IFIs constructed based on measures that aggregate these pre-conditions for effective fiscal scrutiny.

Acknowledgments: The author would like to thank Alena Palinska for help with collecting and processing data, and Nima Ahmadzadeh, Viktor Novysedlak, Ludovit Odor, Monika Sherwood and two anonymous referees for useful comments on earlier drafts.

## Introduction

The Treaty on Stability, Coordination and Governance (TSCG, Fiscal Compact) was signed by 25 EU member countries (at that time, all member states except for the Czech Republic and the UK) on 2 March 2012 and it came into force on 1 January 2013. For euro area members, the full text of the treaty is binding, whilst non-euro area members could choose which part of the treaty they would be bound by. The main motivation behind the TSCG was to increase the local ownership and enforcement of the provisions of the Stability and Growth Pact by embedding them into legislation at the national level. This includes the requirement to have independent bodies in place that monitor compliance with fiscal rules and produce or endorse forecasts that underpin national budgets.<sup>1</sup>

To our knowledge, there have not yet been systematic evaluations involving quantitative analysis of the practical application of the treaty's specific provisions. This paper aims to assess the degree to which independent monitoring bodies that now operate in signatory states are in the position to exercise effective scrutiny of budgetary policies at the national level.<sup>2</sup>

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<sup>1</sup> Many TSCG provisions mirror the requirements set out in EU Regulation No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area and the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

<sup>2</sup> Calmfors and Wren-Lewis (2011), IMF(2013) and Beetsma and Debrun (2016a) provide a thorough overview of the rationale for and the potential channels of positive influence of independent fiscal institutions (IFIs) on the budget process. In the context of Chang (2012), they could also be seen as a part of a 'fire alarm' mechanism alerting the principal (the European Commission) of agency (member state) slack in delivering on commitments.

All signatories of the TSCG except for Poland now have an independent body established or appointed to monitor fiscal developments that is fully operational and with adequately defined mandates.<sup>3</sup> Some institutions – the Dutch CPB, for example - have a long-standing tradition that pre-dates the recent legislative drive. They represent decades of practice of good governance. The vast majority of the EU Independent Fiscal Institutions (IFIs) are, however, newly created bodies that derive their authority formally from legislation. With the exception of production or endorsement of forecasts that underlie a country's budget, EU IFIs are meant to influence policy making only indirectly by promoting greater transparency and deeper public scrutiny on budgetary matters.

In line with this, for the purposes of this paper, we define 'effective scrutiny' as exerting influence on the political process through comprehensive analysis and effective communication so that, as a result, public debt remains close to its efficient level.<sup>4</sup> When evaluating the potential for effective scrutiny, we therefore assess the capacity of an independent fiscal institution to produce regular and comprehensive evaluations of the state of a nation's public finances over different time horizons and whether they lead to a response by the country's executive and/or its legislature. Response, in this context, is understood to be an

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<sup>3</sup> In the latest round of country-specific recommendations by the European Commission, Romania and Slovenia were recommended to improve the functioning of their fiscal framework with the document explicitly referring to the position of their IFI (or, in the case of Slovenia, a lack thereof). Members of the newly established Fiscal Council in Slovenia were eventually appointed by the National Assembly in March 2017. In what follows, a Slovenian analytical unit based in the country's central bank (IMAD) is going to be referred to as Slovenia's IFI, as it fulfilled some of the tasks of such an institution in the absence of a fully-functioning IFI.

<sup>4</sup> See Beetsma et al. (2016c) for a formal political economy model of this interaction.

act of formal public communication or policy action by the government or the legislature that is directly linked to the pronouncements by the IFI. The typical independent watchdog (or sometimes advisory) nature of IFIs presupposes that their recommendations, if any, are non-binding. Hence, the concept of a ‘response’ here is broader relative to the strict interpretation as ‘action being taken in line with recommendation’.

We use different types of measures of the different dimensions of the functioning of an IFI relevant for the exercise of surveillance. They are in line with the definition of potential for effective scrutiny as set out above and motivated by principles formulated by international bodies or by theoretical work. Following Beetsma and Debrun (2016a), we aggregate them up into indices measuring the potential for effective scrutiny and compare rankings of IFIs on these measures. Our analysis differs from theirs both in the IFI sample (includes new institutions) and the fact that our analysis concentrates on the more operational aspects of the functioning of IFIs.<sup>5</sup>

Our findings suggest that – in no particular order - the Dutch CPB, the Portuguese CFP and the Slovak CBR are best positioned to hold the executive to account in the budget process among the signatories of the TSCG for whom the Fiscal Compact is binding. At the other extreme, we find that the position of the Luxembourg (CNFP), German (Advisory Body to the German Stability Council), Estonian and Cypriot IFIs needs strengthening. The Spanish IFI also ranks very high in one of our rankings. We provide some tentative evidence that the potential

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<sup>5</sup> Outcome-indicator-based analyses have been attempted by IMF (2013) and Nerlich and Reuter (2013) on a different sample of countries with tentative yet promising results. It would be, however, premature to conduct similar analyses on the sample we are dealing with.

effectiveness of IFIs to exercise effective budgetary scrutiny is linked to the degree to which the institutions arose from a local initiative.<sup>6</sup>

The weakest IFIs need an urgent reinforcement of their resource base, and we argue for supra- or international action in this area. Promoting local ownership of good governance through international commitments is proving difficult, and given the initial conditions, more action from the international level seems warranted until the IFIs establish firm roots in the national institutional architecture. The possibility of enforcing minimum standards and the role of the newly created European Fiscal Board in this should be explored (Mijs, 2016). There is also room for improvement in the area of access to information for many IFIs, including at the EU level. The follow-up from the government to IFI reports and recommendations is often inadequate, and detailed codes of conduct or memoranda of understanding in this area would be useful. Also, many IFIs have very weak links with the legislature. Such a link would be a desirable feature and should be sought by IFIs in a representative democracy.

The paper is unique in that it reflects the perspective of EU IFIs as gathered through a series of surveys conducted among EU independent fiscal institutions. This has the obvious advantage of the information reflecting the assessment of those conducting surveillance rather than of

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<sup>6</sup> The evaluation in the paper is an evaluation of individual institutions, not of the national fiscal framework as a whole. As shown in Nerlich and Reuter (2013), for example, there are potentially important complementarities between IFIs and other elements of a well-functioning fiscal framework (such as numerical rules and budgetary procedures). From a long-term perspective, it would thus be a mistake to see fiscal rules or medium-term budgeting frameworks and IFIs acting as substitutes as a satisfactory solution no matter how solid the recent fiscal performance may have been. Moreover, in some countries (Austria or Netherlands, for example) two or even more institutions jointly fulfil the role of potentially a single IFI. This is reflected in our analysis.

those being surveyed (as is common with surveys conducted by international bodies). On the other hand, the information obtained is sometimes inherently subjective, and a diverse set of IFIs may well use different benchmarks when self-evaluating their position.<sup>7</sup> Nevertheless, the results tend to survive a closer scrutiny at the level of individual cases in most instances. In-depth case studies could address the evaluation of the qualitative aspect of an IFI's functioning not (accurately) captured in this analysis.

The paper complements a wider body of literature that arose in the wake of the adoption of the TSCG. Burret and Schnellenbach (2013) reviewed the speed and mode of implementation of the provisions of the Compact in euro area member states in the early days following the adoption. Several papers have dealt with the political and institutional implications of the intergovernmental nature of the treaty. Chang (2012), for example, studies the implications for the balance between intergovernmentalism and the communitarian method, and warns of inefficiencies arising from delegation. Laffan (2014) assesses the consequences for the balance between responsiveness towards the domestic electorate versus commitments towards partners that are external to member state politics. Radice (2014) sees the TSCG as yet another step towards depoliticization of economic policy and is concerned about an underlying ideological bias.<sup>8</sup> The question of the TSCG's adequacy in dealing with the challenges faced by the euro area has also been considered (Bird and Mandilaras, 2013, Aldasoro and Faia, 2014, Kukk and Staehr, 2015). This paper is empirical and focuses on the question of whether the

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<sup>7</sup> This is an issue particularly in the case of the Hungarian IFI in our sample which is a new institution created following the dismantling of a different IFI following its criticism of government policies.

<sup>8</sup> An exhaustive review of such contributions is beyond the scope of this paper but see also Baratta (2012), Fabbri (2013), Beach (2013) and Mortensen (2013), for early work on the TSCG.

practical implementation of independent monitoring bodies at member state level carries the potential to enhance the efficiency of the functioning of the EU fiscal framework.

The rest of the paper is organized as follows. Section 2 discusses the design of the surveys that are our main data source. Section 3 provides a summary of the responses across institutions with the aim to capture the overall picture in different aspects of the functioning of IFIs. In section 4, we then concentrate on the potential of individual IFIs which we evaluate with the help of aggregate indices. Section 5 summarizes the implications of our analysis and, finally, section 6 concludes.

## **Data sources**

We compile data and information from three different surveys conducted between May and December 2015. Two of them were conducted by the author, and one was conducted by the European Commission but the answers were made available to the author by the EU IFIs.

The first questionnaire on the state of the implementation of the TSCG followed closely a similar questionnaire distributed by the European Commission among government officials. The questionnaire was distributed among all EU independent fiscal institutions existing at the time in countries that were signatories of the Fiscal Compact and received 18 responses. The questionnaire included 16 questions closely following the legal text of the TSCG and one open-ended question aimed gathering information about challenges and problems the IFIs might face. Participants in the survey were expected to supply detailed answers to the questions. In this paper, we shall evaluate the answers to questions on the existence of independent monitoring bodies.

Second, we conducted a survey in which IFIs were asked to provide a quantitative assessment of important elements of the OECD (2014) principles for independent fiscal institutions. A Likert scale of 1 to 5 was used to quantify the EU IFIs' perceptions.



Finally, we also rely on data from a survey by the European Commission conducted during autumn 2015 among members of its EUNIFI network. We evaluate questionnaires sent to us by those institutions that were at that time a member of the Network of EU IFIs which is a bottom-up initiative of IFIs. The sample size is 20 institutions.<sup>9</sup> This was a more structured survey collecting data on IFIs but also information about their relationship with key stakeholders in a way which permits a quantitative analysis of the results.

Details on the content of the surveys used in this paper are given in the online Appendix.

## **Independent fiscal institutions and their environment**

This section provides an overview about the basic characteristics of the IFIs and the environment in which they operate.

### **Local ownership**

Given that the origin of many IFIs lies in the need to implement provisions mandated by supranational or international legislation, whilst other IFIs represent an established tradition, it is not surprising that there is a large variation in the responses on our measure of local ownership.

The OECD (2014) principles state that

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<sup>9</sup> The sample in all three cases involves IFIs (the UK OBR, the Swedish and the Hungarian IFIs) from countries that are either not signatories of the TSCG or for whom the Fiscal Compact is not binding. We have excluded these from our aggregate descriptive analysis in the next section but kept them in the measurement of the relative potential effectiveness of IFIs. In the latter case, their presence in the sample does not affect the indicator scores of other institutions. At the same time, they represent a relevant comparison group for IFIs operating under the Fiscal Compact, as their mandates are similar and two of them have also served as a relevant benchmark for many newly created IFIs.

To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed,

emphasizing the importance of IFIs being ‘home-grown’. The reality in the EU is that of a large gap between desirable standard and reality, in spite of the fact that the EU legislation allows for national specificities to be taken into account in the design of the institutions.

Whilst there are a few institutions strongly rooted in the national consensus (in the Netherlands, Portugal or Slovakia), there are many whose existence is not underpinned by widespread political support or a natural position within the national institutional hierarchy (Luxembourg, Germany, Greece, Lithuania, Estonia, Malta, Cyprus or Ireland). This is reflected in the IFIs’ self-assessment in our second survey. Table 1 summarizes the average responses across EU IFIs from our second survey along the different dimensions of the OECD principles. The lowest mean response and the highest variation is recorded for the question on being a home-grown institution.

[TABLE 1]

## **Tasks**

The independent fiscal institutions are mandated to perform a range of tasks in different areas (see Table 2). All EU IFIs assess draft budgets, and the vast majority of them have a role in endorsing forecasts, and evaluating the fulfilment of numerical fiscal rules against plans. A

large majority of institutions also produce assessments of long-term sustainability of public finances. Somewhat surprisingly, only a small number of IFIs produce forecasts.

[TABLE 2]

### **Resources**

Data from the third survey also indicate a significant dispersion in resources available to IFIs. At this stage, we discuss the raw figures. Later in the paper, we control for differences in purchasing power, the number of tasks and resource-intensity of tasks more formally. Figure 1 – which gives an indication of the disparities – is constructed based a sample of 17 EU IFIs for whom the Fiscal Compact is binding.<sup>10</sup> We see a huge dispersion of both financial and human resources available to IFIs. Narrowing down the sample further to 10 institutions that perform at least 10 of the full set of tasks (see Table 2) does not alter the picture significantly and confirms significant skewness in the distribution of available resources across IFIs. The average funding across such institutions is around 1,3 million EUR (median 700,000 EUR) with a standard deviation of 1,4 million, whilst the average number of employees in such institutions is 15 (median 6) with a standard deviation of 17.

[FIGURE 1]

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<sup>10</sup> In addition to the IFIs from the three member states not bound by the Fiscal Compact, we have excluded the Dutch CPB from the figure on available funds, as it is an outlier that could only be shown on a different scale.

## **Access to information**

Whilst IFIs generally report adequate access to statistical information at the central government level, including forecasts, there are several areas where improvement could facilitate more effective oversight (see Table 3). This is particularly true for data and information on units that are non-central government but a part of the general government sector. There is also often little information about the governments' approach to costing of individual policy measures.

In several cases (Estonia, Finland, Italy, Latvia, Lithuania, Portugal, Romania, Slovakia), all public institutions are required to provide all information to the fiscal councils necessary for fulfilling their duties. In case of non-compliance with this obligation, some fiscal council might take own actions, e.g. in Finland, the IFI has sanctions at its disposal and in Spain, in case of repeated breach of this obligation, corrective measures may be foreseen. Several fiscal councils have reinforced the cooperation with other public institutions by signing memoranda of understanding (e.g. Ireland, Slovakia) or have been trying to improve the access to information on the basis of goodwill (Ireland, Luxembourg). In some cases, there is very weak legal background for access to information (Luxembourg) or the access needs to be improved (Austria).

EU IFIs are in the specific position in that they are a part of the EU fiscal framework within which there is also a central level of oversight exercised by the European Commission. Moreover, many IFIs are tasked by legislation to replicate the analysis carried out by the European Commission. Information flows at this level appear to be far from perfect, as many IFIs identified lack of information about EU surveillance rules, procedures and methodologies as a key information gap.

The survey that evaluates the situation of IFIs in the light of the OECD principles for IFIs on aggregate also reveals that access to information is one of the areas where the position of IFIs could be improved to get closer to what is considered good practice (see Table 1).

[TABLE 3]

### **Functional independence**

Information from the first survey indicates that the independence of IFIs is explicitly expressed in the legislation in all cases. Most of the institutions are stand-alone, functionally autonomous and fully independent from the budgetary authorities and the staff cannot seek or accept any instructions and interventions from any other entities. Also the nominations have to fulfill criteria of expertise and experience in the field of public finance, the nominees cannot take part in activities that could affect the independence of the fiscal council. In some countries, the nominations are limited only to the country nationals or civil-servants, which several councils perceive as current or possible future obstacles for appointments and hiring of staff, especially in smaller countries.

These observations are consistent with the data reported in Table 1. The average scores across EU IFIs are highest and the variation is smallest exactly in the dimensions measuring functional independence and the choice of leadership.

### **Institutional follow-up and relations with stakeholders**

It is very important for the effectiveness of an IFI's scrutiny of budgetary policies to have established follow-up mechanisms with decision makers and an outreach to the broader public. In this section, we examine relationships with three key stakeholders: the legislature, the government and the media (public).

Relationship with the legislature is one of the most problematic areas in the functioning of EU IFIs. Unlike the IFIs in the US, Canada or Australia, all but two of the EU IFIs in the sample are based outside parliaments – either as standalone institutions or units of institutions such as audit offices or central banks.

Standalone IFIs face a trade-off here. On the one hand, safeguarding independence relative to political bodies is of paramount importance for IFIs' existence and functioning, especially in the early days of their existence. On the other hand, in a representative democracy, equipping parliamentarians (regardless of their political affiliation) with sufficient information to scrutinize government policies from a fiscal perspective is vital for an effective exercise of the legislature's accountability role in the budget process. This is indeed recognized in the OECD (2014) recommendations for IFIs encouraging them to establish more or less formal relationships with parliaments regardless of their position in the country's institutional framework. In a similar vein, IMF (2013) also endorse the idea of establishing regular exchanges of views with 'other official institutions' (which may well involve the relevant committee(s) of the parliament) involved in commenting on fiscal policy of the government to enhance the effectiveness of an IFI's communication and its position as the authoritative voice on domestic fiscal matters. In addition, as recognized in IMF (2013), parliaments (as a whole) are often the political principals (whether de facto or de jure) of IFIs, and regular interaction concerning the fulfilment of their mandate is an important part of an IFI's accountability. Moreover, in the context of the EU, enhancing the accountability role of the national parliaments in the budget process should lead to an increase in the local ownership of the idea of fiscal sustainability and transparency, and allow less intrusion from the EU level into the national democratic processes.

In practice, as our Table 1 shows, relationship with the legislature is one of the problematic areas of the functioning of EU IFIs. This echoes the findings from the third survey which asked

about the frequency of contacts with the legislature where the average score in the range between “frequent” (score 5) and “too few to assess” (score 1) is 3.1 (with a standard deviation of 1.5).<sup>11</sup>

It is crucial from the perspective of the effectiveness of the fiscal council that the government takes notice of its pronouncements. The practice, again, is rather uneven across EU countries, and often different from the intent of the legislation.

Legally, while the fiscal councils are requested to publish opinions and recommendations, only in exceptional cases do they have the mandate to trigger policy action. In the majority of cases, following the publication of the opinions, the government shall follow the comply-or-explain principle and in case there are significant differences in the viewpoints, it shall publicly justify the reasons. In some countries, the legislation sets a timeframe within which the explanation shall be made, in Ireland and Malta it should be made within two months, in Spain the fiscal council has issued a regulation clarifying the nature of recommendations as well as specific deadlines to react. On the other hand, in some other countries, e.g. Luxembourg, there is no explicit legal basis for the comply-or-explain principle.

The above description mainly holds for the task of evaluating compliance with numerical fiscal rules in relation with the TSCG. In other areas, there are mostly no formal, predetermined rules or procedures that would follow the publication of opinions and assessments. Hence, it is important to look at practice.

In practice, the situation seems less than ideal and often in fact perhaps worse than in the case of the relationship with the legislature. When asked about the frequency of responses by

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<sup>11</sup> It will be important to monitor this indicator of potential effectiveness over time to see if significant change occurs, as the newly established IFIs develop a track record of political independence.

governments to their reports, IFIs an average score of just 2.9 with a standard deviation of 1.5 on a 1 to 5 scale where 1 denotes “rarely” and 5 stands for “always”.

The fiscal councils generally enjoy the freedom to communicate freely with the media and do not experience any issues in this field. For this purpose most of the fiscal councils have their own websites at which the reports and opinions are published, they organize press conferences and communicate with the media.

In our second survey, the IFIs rated the effectiveness of their communication fairly highly (see Table 1) but when asked a different question about the awareness of the public at large about their existence, tasks and views of the major fiscal issues of the day, the average score across institutions was only at 2.6 if we rate the answer “few know about our existence” as 1 and “most know about our existence, tasks (broadly speaking), and have an idea on our broad stance on the most important current budgetary issues of the day” as a 5.

## **Measuring the capacity for effective scrutiny**

The previous section looked at different parameters determining the potential for effective scrutiny of IFIs, and evaluated the situation on each factor on aggregate across institutions. In this section, we look at individual institutions and attempt to aggregate information on each of the parameters into aggregate indicators with a view to measure the potential IFIs have to exercise effective fiscal scrutiny in their respective countries.

To this end, we use data from the second and the third survey to construct indices that will allow us to rank individual IFIs.

The first measure we construct is based on the second survey examining the different dimensions of the OECD principles. Our index is an absolute measure: a simple average of reported scores across the different questions. The results of this exercise are reported in Table

4.



[TABLE 4]

Next, we use data from our third survey to produce a similar index. We assess IFIs along the following seven dimensions:

1. *Breadth of mandate*: measured by the number of tasks the IFIs perform adjusted for their resource-intensity. The rationale behind this measure is that institutions with broader mandates and involved in the particularly demanding tasks of fiscal surveillance are more likely to possess the expertise and clout to influence the budget process.<sup>12</sup> In several member states, multiple institutions perform the functions of a potentially single IFI. The analysis here implicitly assumes the existence of important synergies if all fiscal-oversight-related tasks are located under one institutional roof. Effective scrutiny crucially depends on information flows, and institutional divisions in oversight create unnecessary barriers to such flows.

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<sup>12</sup> The number of tasks has been adjusted for their resource intensity as follows: a weight of 1 is given to production of forecasts, monitoring of sub-national budgets and costing of policies, a weight of 0.8 is assigned to ex ante and ex post assessment of budgets and research, a weight of 0.6 is given to assessment of fiscal rules (ex ante and ex post), assessment of monitoring of Stability Programme Updates and long-term sustainability analyses, endorsement activities and involvement in the correction mechanism under the TSCG carries a weight of 0.4 and, finally, a weight of 0.2 is assigned to normative recommendations and promotion of fiscal transparency.

2. *Financial resources*: measured by the budget divided by the number of (resource-adjusted) tasks.<sup>13</sup>
3. *Human resources*: measured by the number of staff divided by the number of (resource-adjusted) tasks.
4. *Access to information*: measured (on an inverted scale) by the number of different areas in which an IFI feels information is inadequate – either withheld or available with undue delay.
5. *Public awareness*: measured on a 1 to 5 scale with the response “few know about our existence” counting as 1 and “most know about our existence, tasks (broadly speaking), and have an idea on our broad stance on the most important current budgetary issues of the day” as a 5.
6. *Reaction from government*: measured on a 1 to 5 scale with 1 capturing a situation when government responds to an IFI only rarely and 5 corresponding to the answer “always”.
7. *Relationship with Parliament*: measured on a 1 to 5 scale and capturing the frequency of contacts with the legislature where 1 stands for “too few to assess” and 5 signals “frequent” exchanges.

There are obviously several caveats here concerning all the measures we use. Our adjustment for the human-resource- and finance-intensity of tasks may well be rather imperfect. The number of complaints need not capture the severity of the situation fully, as it blurs the importance of individual cases. Neither of our measures captures the unobservable qualitative component of the work of an IFI. Yet, we trust the imperfect measures will be able to tell us something useful about the big picture.

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<sup>13</sup> The absolute budget sums have been adjusted using 2015 GDP price level indices for each country.

Given that our indicators are measured on different scales, we standardize them so that they all measure the relative position of an institution on the  $[0,1]$  interval with respect to a given indicator.<sup>14</sup> Then, we take a weighted average across the scores. In our baseline analysis, the average score on the first four indicators above receives a weight of 0.75, whilst the average score on the last three indicators carries the weight of 0.25. This is motivated by the fact that the last three indicators are more subjective in nature.

The results from this exercise are reported in Figure 2 below. Comparing the results with Table 4, we see that there are significant overlaps despite the measures being based on different types of data. The top third of the ranking consistently involves the Dutch CPB, the UK OBR, the Portuguese CFP, the Slovak CBR and the Slovenian IMAD. At the other end of the spectrum, we see the Luxembourg, the German, the Cypriot and the Estonian fiscal council appearing in both rankings. The results are broadly consistent with Beetsma and Debrun (2016b).

[FIGURE 2]

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<sup>14</sup> The Dutch CPB represents a clear outlier in terms of funding and human resources. The Slovenian IMAD is also an outlier in terms of number of staff. We carry out the standardization excluding these two institutions, and assign the maximum value of 1 to them subsequently. Note that the results are similar if we use normalization by subtracting the mean and dividing the value by the standard deviation. It is, however, difficult to argue that the distribution of the variables is normal, and hence we prefer the standardization to the 0-1 scale.

A simple sensitivity test has been conducted to see how the weighting of the different indicators affects the overall scores and ranking. There are no obvious a priori intuitive arguments to justify significantly different weights within the broad categories of ‘objective’ (1 to 4) and ‘subjective’ (5 to 7) indicators.<sup>15</sup> Hence, we concentrate on testing the importance assigning different weights across these two broad categories. Figure 3 displays how the ranking of institutions is affected relative to the baseline result when we compute a simple average of scores on all the indicators (and thereby assign a considerably larger weight to subjective factors) and when we ignore subjective factors altogether. We see that as we reduce the weight of relevant subjective factors, the ranking of the Austrian, Finnish, UK and the Lithuanian IFI improves considerably, whilst the German, the French, the Irish and the Hungarian IFI slide in the rankings. Overall, however, the broad categories of IFIs identified earlier in the paper remain unaffected.

A second sensitivity test was motivated by the fact that we have implicitly equated resource intensity with influence in the budgeting process when constructing the “breadth of mandate” variable. It can, however, be argued, that the clout of an IFI in the budgeting process also depends on its legal powers. In particular, if production or endorsement of macroeconomic and budgetary forecasts, and involvement in a correction mechanism associated with a fiscal rule is backed by strong legal force (including the Fiscal Compact), the effectiveness of an IFI is going to be greater if it performs these tasks rather than other tasks of similar resource-intensity. To take this into account, we raised the weight of these tasks in the “breadth of

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<sup>15</sup> In a more formal analysis, such weights could come from a regression of an outcome-based measure of effectiveness of IFIs on our specific input indicators conducted on a global sample of IFIs. Such work is, however, beyond the scope of this paper but perhaps an interesting line of future research once a consistent database is built.

mandate” variable to 1 (2 in the case of production of forecasts). This change paradoxically mainly affected the relative position of IFIs in countries not bound by the Compact (included for the sake of reference) – and did so in a positive way (see last column Figure 3). The Swedish and Hungarian IFIs are relatively small bodies with narrower mandates but play a key role vis-à-vis their country’s main fiscal rule, whilst the OBR derives enormous influence from the fact that it supplies the official forecast for the budget.

[FIGURE 3]

Interestingly, the average score from the baseline exercise correlates nicely with the degree of local ownership as reported in the second survey. This is shown in Figure 4. This result provides some tentative support for the conjecture about the importance of local ownership of institutions for their design and potential effectiveness. Given the sample size, however, one needs to be careful with drawing conclusions here. Nevertheless, it is a potentially interesting idea to investigate further in future work.

[FIGURE 4]

## **Implications**

The lack of resources which is usually the factor that underlies the low ranking of the worst-ranked IFIs identified in the previous section needs to be addressed with urgency. Where IFIs do not enjoy broad-based political support at the national level, pressure from supra- or

international bodies might be needed to support these institutions until they become more widely acknowledged locally.

Our analysis indicates that there are also significant problems with access to information in the case of some IFIs. In terms of areas where gaps in information persist, we should highlight data on sub-national and general government entities but also information concerning individual government measures underpinning consolidation strategies. More work also needs to be done to improve the flow of information between the EU level and the national level about the evaluation of the compliance with EU fiscal rules, including on matters of methodology.

Lack of response from governments to IFI analysis and weak relationships with legislatures are a cause for concern. Comply-or-explain provisions contained in national legislation could be made more detailed on both the process, the timing and the nature of the outcome to ensure governments respond formally and publicly to the issues raised by IFIs.

To address these issues, a stronger enforcement of relevant law ensuring even compliance across member states seems warranted. A comprehensive assessment of both the legal transposition of the TSCG (and the relevant provisions in the EU legislation) and the practical day-to-day implementation of the provisions is warranted. Any shortcomings in legislative implementation should be then addressed through legal action involving the European Court of Justice. Furthermore, the possibility of enforcing minimum standards as regards operational matters such as resources, access to information or interaction with government through quasi-legal instruments (such as Codes of Conduct or memoranda of understanding) should be investigated. The role of the newly established European Fiscal Board in this process should also be explored.

At the same time, cooperation among IFIs and peer pressure (in the form of peer reviews) could promote a more even application of the TSCG on the one hand, but also address an important qualitative component of the work of an IFI not captured by this analysis.

## **Concluding remarks**

We have reviewed the implementation of the Fiscal Compact in EU member states with a special focus on the establishment and the functioning of independent monitoring bodies. We have found that whilst many EU IFIs have the resources and the right institutional setting to fulfil their mandates effectively, in several cases, there are critical capacity and information constraints to be addressed to foster a better functioning of the national fiscal framework. Our analysis allows identifying the most acute among such cases.

Whilst work based on aggregation of simple and often subjective information may yield useful insights, it is important to follow-up studies of this kind with detailed case studies to identify the deeper and more qualitative critical factors that facilitate effective fiscal surveillance.

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## Tables and Figures

Table 1: IFIs in the light of the OECD principles for IFIs

Question	Mean response	Standard deviation
To what extent do local institutional conditions determine the role and the structure of your IFI? Answer 1 if IFI role and structure is/was imposed from outside; Answer 5 if the IFI emerged from a local initiative.	2.82	1.47
To what extent is the leadership of your IFI chosen on the basis of merit and technical competence?	4.59	0.80
To what extent does your IFI have the autonomy to determine its work programme within the bounds of its mandate?	4.59	0.51
To what extent does your IFI have the resources necessary to fulfill its mandate?	3.41	1.00
To what extent is your IFI engaged with the local legislature?	3.24	1.15
To what extent does your IFI have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals?	3.35	1.00
To what extent does your IFI make documents, methodologies and data (where applicable) freely available?	4.06	0.83
How would you assess the effectiveness of the communication of your IFI?	3.82	0.81

Table 2: Tasks of EU IFIs

Task	Frequency
Assessment of draft annual budgets.	16
Endorsement/assessment of macroeconomic forecasts used for fiscal planning.	15
Endorsement/assessment of budgetary forecasts.	15
Ex ante fiscal rule assessment.	14
Assessment of Stability Programmes (or of national medium-term fiscal plans).	13
Continuous monitoring of fiscal policy/budgetary execution.	13
Ex post fiscal rule assessment.	12
Long-term sustainability assessments.	12
Promotion of fiscal transparency.	12
Involvement in the correction mechanism of the country's main fiscal rule	11
Research in public finance.	10
Monitoring of the budgets of sub-national government (incl. assessment of fiscal rules applicable to them).	8
Quantification of short-term and long-term budgetary effects of envisaged policy measures and reforms.	8
Research in other macroeconomic issues.	8
Normative statements/recommendations regarding fiscal policy.	6
Production of macro-economic forecasts used for fiscal planning.	3
Production of budgetary forecasts.	3

Table 3: Access to information

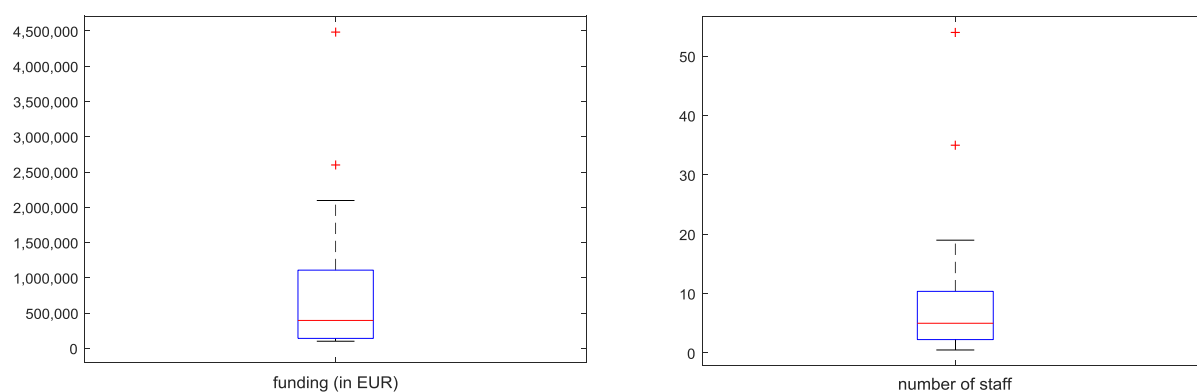
Information type	Number of complaints
Methodological information about how the government costs its measures.	8
Information about EU fiscal surveillance rules and procedures (please specify, i.e calculation of output gap, calculation of the expenditure benchmark, other indicator, etc.).	8
Information on fiscal surveillance techniques by the EU or national institutions.	8
Information on budgetary procedures at the non-central government level (Social Security, Sub-Nationals, State-Owned Enterprises, etc.).	6
Detailed statistical information on other General Government sub-sectors (please specify which sub-sector(s) are concerned).	6
Information about the government concrete policy measures.	6
Information about the costing of government policy measures.	6
Information about national budgetary procedures/classifications (in particular of large transactions).	5
Information about the government general orientations and intentions.	4
Government macroeconomic and budgetary forecasts.	3
Information about the internal (i.e. within the State) arrangements surrounding the preparation of budgets.	3
Statistical information on State-owned Enterprises or contingent liabilities.	2
Detailed statistical information on central government	1

Table 4: Rankings according to OECD principles

IFI	Rank
SE*, UK*	=1
NL (CPB), SI (IMAD)**, HU*	=3
SK, PT	=6
FI**, EL (PBO)	=8
IT, LI, IE	=10
DK	13
LT	14
ES	15
EE, MT, CY, DE (Advisory Board to German Stability Council)	=16
LU (CNFP)	20

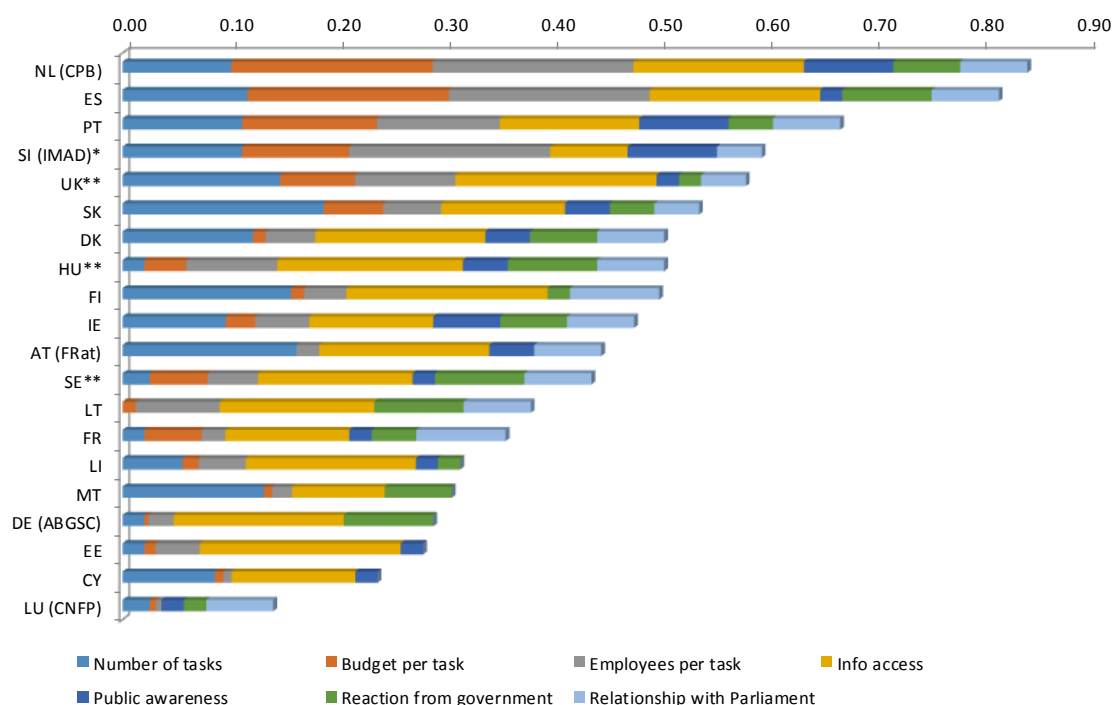
\*UK, SE, HU not bound by Fiscal Compact, \*\*see footnote 3

Figure 1: Similar tasks, different resources (EUR, number of staff)



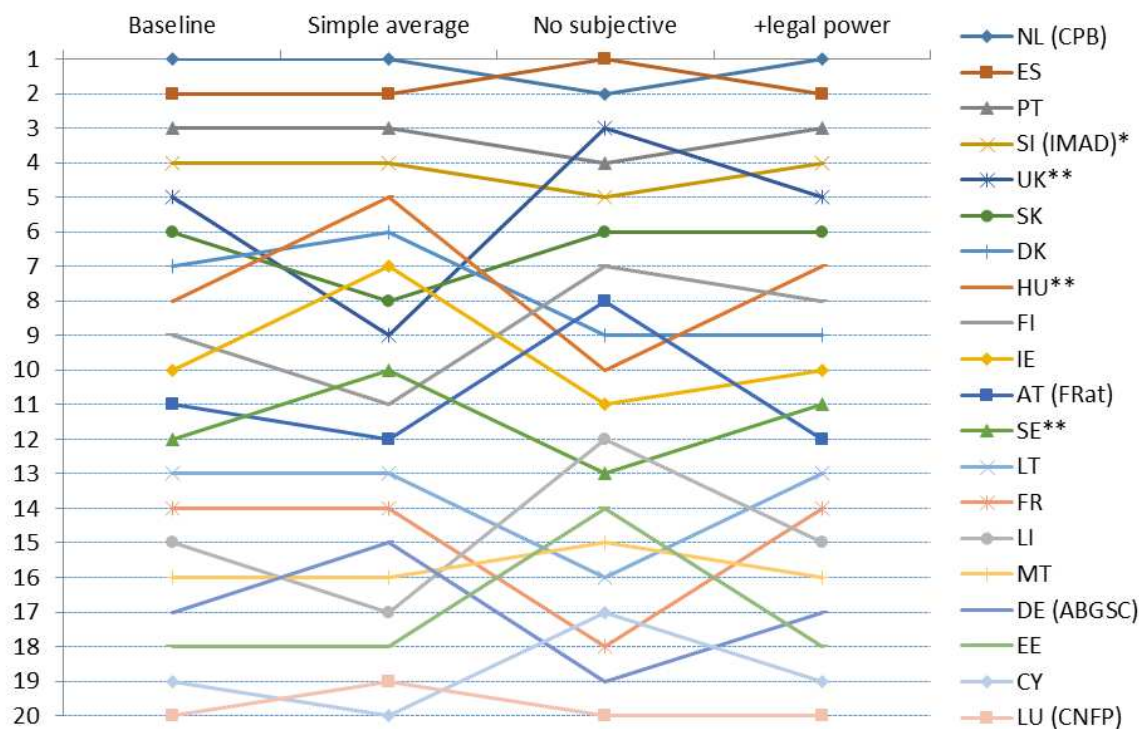
Note: On each box, the central mark is the median, the edges of the box are the 25th and 75th percentiles, the whiskers extend to the most extreme datapoints the algorithm considers to be not outliers, and the outliers are plotted individually. Note that these are outliers in a statistical sense only. Being an outlier here should not be interpreted as an IFI has an excessively generous allocation of resources.

Figure 2: Ranking of IFIs according to the aggregate scrutiny effectiveness indicator score



\*see footnote 3, \*\* UK, SE, HU not bound by Fiscal Compact

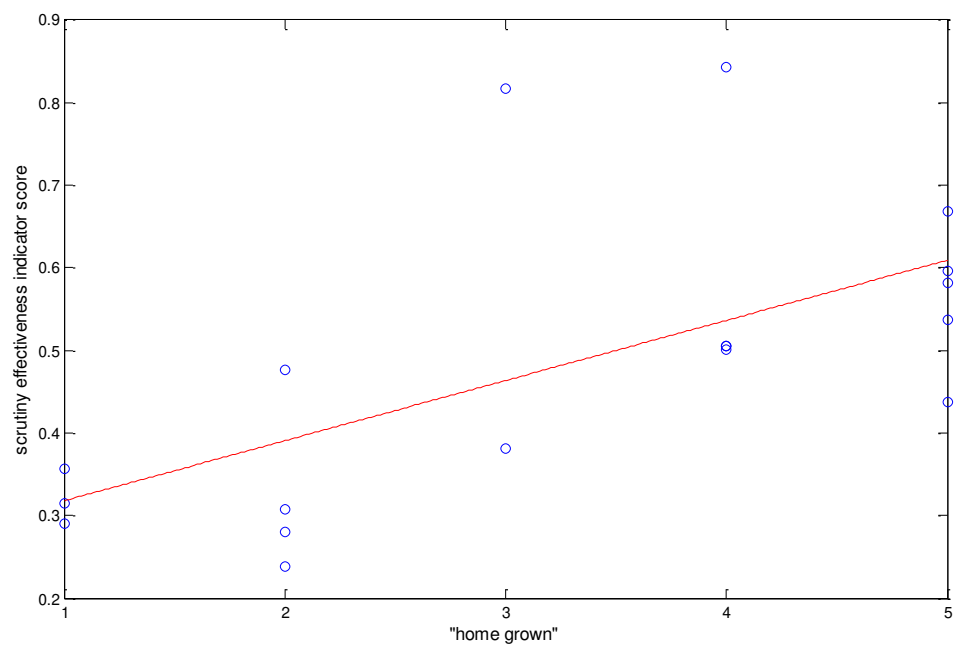
Figure 3: Sensitivity analysis



\*see footnote 3, \*\* UK, SE, HU not bound by Fiscal Compact.

Figure 4: Local ownership vs scrutiny effectiveness indicator score

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# Appendix

## The questionnaires

The questionnaire in the first survey (conducted in June-July 2015) asked the IFIs to answer a range of questions on the legal transposition of the TSCG. There were 17 open questions altogether which covered the full range of issues agreed in the TSCG. Here, we select those questions that are directly relevant for the topic of this article:

1. Please describe the legal base(s) and vehicle(s) used for the transposition of the rules set out in Article 3(1) TSCG.  
  
...
14. Please indicate which national body has been assigned the task of monitoring the observance of the rules laid out in Article 3(1) TSCG and the functioning of the correction mechanism. Is it structurally independent (i.e. a stand-alone body), or attached to an already-existing entity?
15. Please describe the mandate of the monitoring body.
16. What response(s) do the assessments referred to above triggers, and are there pre-determined follow-up procedural steps? To what extent is the government compelled to follow the assessments of the monitoring body, and how does it have to publicly justify its course of action when not following the assessments?
17. Please list any other issues and major challenges.

The second survey entitled EU IFIs in the light of OECD Principles conducted by the author in November-December 2015, asked IFIs to assign a value to themselves on a Likert scale of 1 to 5 along several dimensions set out in OECD (2014). The questions were as follows:



1. To what extent do local institutional conditions determine the role and the structure of your IFI? Answer 1 if IFI role and structure is/was imposed from outside; Answer 5 if the IFI emerged from a local initiative.

1            2            3            4            5

2. To what extent is the leadership of your IFI chosen on the basis of merit and technical competence? Answer 1 if members of the leadership are party-political appointees; Answer 5 if the leadership is fully professional and non-partisan.

1            2            3            4            5

3. To what extent does your IFI have the autonomy to determine its work programme within the bounds of its mandate? Answer 1 if tasks are categorically listed and narrowly defined in the mandate; Answer 5 if the IFI is (also) free to conduct analysis on any issue related to its mandate.

1            2            3            4            5

4. To what extent does your IFI have the resources necessary to fulfill its mandate? Answer 1 if the IFI lacks staff and funds needed for basic functioning; Answer 5 if the IFI has all the resources it (potentially) needs.

1            2            3            4            5

5. To what extent is your IFI engaged with the local legislature? Answer 1 if your IFI has nothing to do with the local legislature; Answer 5 e.g. if IFI all reports are submitted to parliament, leadership or staff frequently respond to parliamentary questions, IFI budget scrutinised in parliament.

1            2            3            4            5

6. To what extent does your IFI have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals? Answer 1 if your IFI has to rely on publicly available data; Answer 5 if your IFI has access to all data sets and methodological documents it needs.

1            2            3            4            5

7. To what extent does your IFI make documents, methodologies and data (where applicable) freely available? Answer 1 e.g. if your IFI does not have a website with a section for documents and methodological working papers; Answer 5 if you provide for free all documents, methodologies, data (where applicable) and codes online and/or through other channels.

1            2            3            4            5

8. How would you assess the effectiveness of the communication of your IFI? Answer 1 if public communication (with media and other stakeholders) is virtually non-existent; Answer 5 e.g. if you have a detailed communications strategy, frequent citations/appearance in media or frequent meetings with the civil society, academia etc.

1            2            3            4            5

9. Is your IFI subjected to external evaluation? Answer Yes, for example, if you have a permanent advisory panel, you have been subjected to a review by an external body (incl. IFIs), if you submit methodological papers for publication in peer-reviewed journals.

Yes      No

The questionnaire in the third survey was prepared and circulated by European Commission staff, and involved a wide range of questions concerning the setup and the functioning of the IFIs. Here, we list the questions that are relevant from the perspective of our analysis.

### *Funding*

For detached bodies, what is the total budget of your institution for 2015 (in national currency)?

For attached bodies (i.e. hosted by another institution), please mention the budget/funds specifically earmarked for the discharge of your activities.

### *Mandate*

Your normal mandate encompasses the following tasks... (multiple answers possible)

- ☐ Production of macro-economic forecasts used for fiscal planning.
- ☐ Production of budgetary forecasts.
- ☐ Endorsement/assessment of macroeconomic forecasts used for fiscal planning.
- ☐ Endorsement/assessment of budgetary forecasts.
- ☐ Ex post fiscal rule assessment.
- ☐ Ex ante fiscal rule assessment.
- ☐ Involvement in the correction mechanism of your country's main fiscal rule (for instance the Fiscal Compact rule if in force).
- ☐ Assessment of draft annual budgets.
- ☐ Assessment of Stability and Convergence Programmes (or of national medium-term fiscal plans).
- ☐ Normative statements/recommendations regarding fiscal policy.
- ☐ Continuous monitoring of fiscal policy/budgetary execution.
- ☐ Monitoring of the budgets of sub-national government (incl. assessment of fiscal rules applicable to them).
- ☐ Long-term sustainability assessments.
- ☐ Quantification of short-term and long-term budgetary effects of envisaged policy measures and reforms.
- ☐ Promotion of fiscal transparency.
- ☐ Research in public finance.
- ☐ Research in other macroeconomic issues.
- ☐ Other (please specify).

### *Staff*

Please indicate staff headcount (a) (on 1 Sep 2015).

	Managers	Economists, Statisticians, Econometricians	Experts in accounting, taxation, etc.	Legal experts	Public Relations,	Administrative, finance, etc.	IT	Clerical support staff	Other (specify)
#	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.

Notes:

(a) In full-time equivalent, excluding the governing body of the institution; please also include staff with atypical work contracts and on temporary loan from other institutions/hosting institution; IFIs conducting other, non-IFI-related tasks should if possible exclude those not directly engaged in IFI tasks.

### Access to Information

What is the type of information that exists but is insufficiently available to you? (multiple choices possible; please mention whether the information is withheld or the timing of delivery of the information is insufficient)

☐ Detailed statistical information on central government.

☐ Withheld    ☐ not timely

☐ Detailed statistical information on other General Government sub-sectors (please specify which sub-sector(s) are concerned).

☐ Withheld    ☐ not timely

☐ Statistical information on State-owned Enterprises or contingent liabilities.

- ☐ Withheld   ☐ not timely
- ☐ Government macroeconomic forecasts.
- ☐ Withheld   ☐ not timely
- ☐ Government budgetary forecasts.
- ☐ Withheld   ☐ not timely
- ☐ Information about national budgetary procedures/classifications (in particular of large transactions).
- ☐ Withheld   ☐ not timely
- ☐ Information about the internal (i.e. within the State) arrangements surrounding the preparation of budgets.
- ☐ Withheld   ☐ not timely
- ☐ Information on budgetary procedures at the non-central government level (Social Security, Sub-Nationals, State-Owned Enterprises, etc.).
- ☐ Withheld   ☐ not timely
- ☐ Information about the government general orientations and intentions.
- ☐ Withheld   ☐ not timely
- ☐ Information about the government concrete policy measures.
- ☐ Withheld   ☐ not timely
- ☐ Information about the costing of government policy measures.
- ☐ Withheld   ☐ not timely
- ☐ Methodological information about how the government costs its measures.
- ☐ Withheld   ☐ not timely
- ☐ Information about EU fiscal surveillance rules and procedures (please specify, i.e calculation of output gap, calculation of the expenditure benchmark, other indicator, etc.).
- ☐ Withheld   ☐ not timely
- The EU-calculation of output gap
- ☐ Information on fiscal surveillance techniques by the EU or national institutions.
- ☐ Withheld   ☐ not timely
- ☐ Other (please specify).

*Response from government*

Would the government react to a written opinion of your institution? Practically the government would react...

- ☐ Always.
- ☐ Often.
- ☐ Sometimes.
- ☐ On specific issues only (please elaborate).
- ☐ Rarely.

### *Relationship with parliament*

Is your national Parliament showing interest in your works?

- ☐ Yes, exchanges are frequent, and interest is there.
- ☐ Yes, we have few exchanges, and interest is there.
- ☐ Yes, interest is there, but only from a few interested MPs.
- ☐ Parliament is not well-aware of our role.
- ☐ Too few contacts to assess.

### *Communication*

To what extent does the public at large know about your institution?

- ☐ Few know about our existence.
- ☐ Some know about our existence but few know our tasks.
- ☐ Most know about our existence but few know our tasks.
- ☐ Most know about our existence and tasks (broadly speaking), but few know our stance on the most important current budgetary issues of the day.
- ☐ Most know about our existence, tasks (broadly speaking), and have an idea on our broad stance on the most important current budgetary issues of the day.
- ☐ Other (please specify).

The full set of answers for all three surveys is available upon request from the author.